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Dear Mr.Watson,

I write to acknowledge the receipt of Mr. Cater's confidential letter No.3 3063/358, dated the 8th January 1924, communicating the principles that have now been formulated on the subject of tribute or subsidy paid by some of the Indian States.

2. His Highness's Government understand that these principles are intended to be adopted as a general scheme applicable to all States that pay tribute or subsidy, and although Mr. Cater's letter makes a passing reference to Sir M. Kantaraj Urs's confidential letter No. Pol. 226, dated the 22nd August 1919, in which a representation was made for the entire ~~abolition~~ remission of the Mysore Subsidy on historic, economic, as well as on equitable grounds, no direct reply has been given to that representation. His Highness's Government feel considerably disappointed that the special grounds urged by them in that letter have not been taken into consideration, and that it is proposed to deal with the Mysore claim under a general scheme, which does not take into account more special grounds, but which is intended to be applicable to all States that pay tribute.

3. While appreciating the recognition of their claim for relief in the matter of the Subsidy, His Highness's Government feel that the recognition does not go far enough so far as the Mysore State is concerned, and the scheme itself has certain inherent defects and drawbacks, as I have endeavoured to explain in a separate note which accompanies this letter (App. A.)

4. In the opinion of the Mysore Government, the only satisfactory and permanent solution of the problem would be to do away altogether with the subsidies or tributes payable by the States, and to devise, other and less invidious means of contribution by them for Imperial purposes. The problem resolves itself into a question of federal Finance, which will have to be faced, sooner or later, by the Imperial Government.

5. Such a solution will necessarily take time; but the present financial position of Mysore is such that it cannot afford to wait for the settlement of this larger problem. The need for relief being urgent and imperative, the Durbar are prepared to avail themselves of the present offer of the Government of India, without prejudice to Mysore's claim for a complete re-adjustment of her financial relations with the Government of India. They are the more willing as the principles enunciated by that Government appear to be wide enough to afford them, if they so desire, ample scope for a generous treatment of Mysore.

The Durbar entertain the confident hope that every consideration will be shown to the State, and that it will at last be treated, in the words of Sir James Gordon (Vide his Memorandum of 1881 quoted in App. B.) "tenderly and considerately" by the British Government in this matter.

Animated by this hope, the Durbar desire to submit the following representations for the urgent and sympathetic consideration of the Government of India.

6. The Mysore Subsidy has a special history of its own,

and this has been pointed out at some length in the memorandum which accompanied Sir M. Kantaraj Urs's letter. It will be sufficient to state here that any re-adjustment that may now be considered should not lose sight of the outstanding facts connected with the initial levy in 1799. It was then stipulated that the Maharaja of Mysore was to pay to the Company the annual sum of 24½ lakhs for the defence and security of the State; that being the price fixed for its protection against internal disturbance and external aggression; in addition, the State was required to meet a reasonable share of the expenses of War. Subsequently, the arrangement was altered, and the subsidy was raised to Rs.35 lakhs a year, 24½ lakhs being for the maintenance of a British Force in Mysore, and the remainder 10½ lakhs, representing Mysore's contribution for external defence.

7. The continued levy of the 24½ lakhs, "on account of the Subsidiary Force stationed in Mysore does not appear to the Durbar to be justifiable. Conditions have entirely changed, and the State has no longer any need for such special protection.

8. As regards the remaining 10½ lakhs, the Durbar feel that the whole of this amount should also in fairness, be remitted, since the State is maintaining troops for the very purpose for which this additional sum is levied. They are prepared to contribute even more than this sum in the shape of troops which would be available for service with the British Army outside the State. In fact, the entire Military resources of the State are at the disposal of the British Government in times of necessity as recent experience has demonstrated.

The Durbar, therefore, venture to think that they have a claim, on moral grounds, for the entire abolition of the Subsidy, and it is this aspect of their case that they would respectfully urge the Government of India to take into special consideration in dealing with this representation.

9. Mr. Cater's letter emphasises certain factors to be considered in connection with the question of remission of the Subsidy, viz., "the past history of the State, the financial capacity and the character of the administration and the quality of the troops and of their value to the Imperial Government."

10. The Government of Mysore do not think it necessary to dwell at length on the factors enumerated above, for they venture to believe that every one of them is in their favour, and the State is entitled to claim the fullest benefit under them all.

11. The history of Mysore under the present Hindu Dynasty has been one of consistent friendliness and unswerving loyalty on the part of both the Ruler and his subjects to the Paramount Power.

As regards the character of the Mysore administration I need only refer to the high encomiums bestowed upon it by successive Viceroys, and by His Royal Highness the Prince of Wales, who in a farewell message to His Highness the Maharaja, on the conclusion of his memorable visit to this State, expressed his admiration of the efficiency of his administration.

As you are aware, the finances of the State have been at a low ebb for some years past, ~~due~~ to various causes, for which the administration cannot be blamed. It is possible, no doubt, to restore financial equilibrium, but that could only be done at the cost of efficiency. The standard of administration, inherited from the British, is high and the Government of Mysore

are pledged to maintain it at that standard. It is impossible for an administration conducted on modern lines and with any pretence to progressiveness to standstill, but progress means expense. Unless the State can find more money for its most vital needs it will not be possible to maintain the administration at the present level. The State has no elastic sources of revenue, and while the Government have done everything in their power to develop their resources, and cut down all available expenditure, they must look for the further relief which they stand so urgently stand in need of to the generous application of the principles enunciated by the Government of India for the remission of the Subsidy.

The troops maintained by the State have rendered meritorious service outside India, and this has been recognised by the Government of India itself. The scheme of Military Re-organisation now under active consideration will further improve their efficiency and enhance their value for Imperial purposes.

The case of Mysore for remission is thus characterised by every favourable circumstance that can possibly exist for claiming the full benefit of "greater liberality" which the principles of the scheme permit.

12. The next important point is with regard to the calculation of gross revenues. The Government of India state that the average for the last five years will be taken into consideration for the purpose of calculating the remission. The remission to be allowed is for the future, and the cost of defence on which this calculation depends is also for the future. So the gross revenue on which it is based ought, as far as possible, to indicate the probable position in the near future, and in view of this fact the average of the last two years, namely 1921-22 and 1922-23 for which actuals are

now available, seems a better criterion than the average for the past five years.

13. There is one more point which the Durbar may be permitted to mention in this connection. The Mysore Revenue Budget includes two items, which can hardly be regarded as ordinary revenues. I refer to (1) the royalty on gold and other minerals, and (2) revenues of Debt and Commercial Services. The former are in the nature of a permenent asset finally parted with, and the income derived therefrom is essentially a capital receipt, and not an ordinary item of revenue. The proceeds of royalty ought to be devoted to the construction of reproductive public works in replacement of the property disposed of, according to the principle that the patrimony of the State must not be impaired, and this revenue should, therefore, be excluded from the calculation. As regards the second item, it cannot obviously be the intention to include under gross revenues the whole of the interest receipts, and the receipts under Commercial Heads without taking into account the corresponding interest payment and the charges on receipts from commercial concerns. It is only net result of debt and commercial service, which is really available for expenditure on service departments like the Military, and the second item, therefore, has to be taken as net in the calculation of the gross revenues.

I attach two statements (App.C.) showing the revenues of the past five years as well as the amounts realised under the two classes dealt with, to indicate the manner in which 15% of the revenues may be calculated. On this basis the gross revenue of the State for the purpose of the present cal-

culation stands at Rs. 266.70 lakhs.

14. Taking, therefore, the gross revenues at Rs.266.70 lakhs and the Military expenditure at 22 lakhs, the subsidy should, under the strict terms of the scheme be reduced by 17 lakhs, but the Durbar trust that the Government of India will be pleased, in view not only of the special reasons existing in the case of Mysore as explained in the preceding paragraphs, but also of the services rendered by the State during the World War make a further reduction of at least 10 lakhs in the Subsidy. The Durbar make no claim on account of the war contributions made by them, but they may be permitted to point out that although under no obligation to contribute in any shape or form, Mysore not only supplied troops, but also made a voluntary gift of Rs.88 lakhs in cash, with Rs.25,000/- annual recurring expenditure on pension charges. It was the first State to offer a large sum of money to the British Government for the expenses of the War, and thus set an example to other States in India.

15. The State has been paying a cash subsidy for a century and a quarter. The annual payment was 24½ lakhs for 97 years from 1799 to 1896, and from the latter year it has been at the enhanced rate of 35 lakhs, which is in addition to the cost of maintenance of a force fit, for Imperial Service outside.

The Government of Mysore have been appealing for over thirty years for relief from this heavy burden, and in appealing once again to the generosity of the British Government, they would earnestly plead that the application of the present scheme of remission to their case may be determined more on the important factors enumerated above, which would justify the grant of the request for the entire ~~abolition~~ remission of the Subsidy, made in my predecessor's letter of July 1919. They hope that the British

Government will view their request in that spirit of fairness and generosity for which it is justly famous.

16. In para 3 of Mr.Cater's letter it is stated that "remission granted will be subject to re-adjustment of financial basis of the relations with the State in other respects."

The exact contingency contemplated in respect of the readjustment of financial relations is not clear from the letter. His Highness's Government, however, believe that it has reference to the question of indirect contributions by the Indian States in the form of customs duties, and other item of revenue to the Imperial Government. This question has been submitted for consideration in letter No. Pol.1808 dated the 3rd March 1923. In connection with the points arising from the recommendation of the fiscal Commission of 1921-23.

In conclusion, His Highness's Government would feel grateful if you would be so good as to forward this representation to the Government of India with your support, and urge on, His Highness's behalf, for a very early and favourable decision.

Yours sincerely,

To

The Hon'ble

Mr.C.C.Watson, C.I.E., I.C.S.,

Bangalore.